

Message Text

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ACTION EUR-12

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INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
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R 031030Z JUL 78
FM AMEMBASSY VIENNA
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INFO AMEMBASSY PARIS

UNCLAS SECTION 01 OF 02 VIENNA 06052

USOECD
PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A
TAGS: OECD, EFIN, ETRD, ELAB, AU
SUBJ: REDUCTION OF CENTRAL BANK RATE AND OTHER
- INTEREST RATES

REF: VIENNA 3703

1. SUMMARY: FINANCE MINISTER ANDROSCH'S INCREASINGLY URGENT APPEALS FOR A GENERAL LOWERING OF DOMESTIC INTEREST LEVELS IN ORDER TO STIMULATE INVESTMENTS HAVE BEEN MET ON JUNE 28 BY THE REDUCTION OF THE CENTRAL BANK RATE AND LOMBARD RATE BY ONE PERCENTAGE POINT EACH, AND BY THE DECISION OF THE CREDIT INSTITUTES TO REDUCE DEPOSIT RATES BY 0.5 PERCENT-AGE POINTS AND CHARGES FOR INVESTMENT CREDITS BY ONE PERCENT. AT THE SAME TIME, COUPON RATES FOR NEW BOND ISSUES WERE LOWERED TO A UNIFORM RATE OF 7.75 PERCENT WITH A FURTHER LOWERING EXPECTED FOR THIS FALL. REDUCTION OF BANK RATE REFLECTS SITUATION ALREADY ANTICIPATED BY THE MARKET. ITS EFFECTIVENESS AS STIMULUS TO INVESTMENT CONSIDERED TO BE NEGLIGIBLE GIVEN THE GLOOMY PROSPECTS FOR THE AUSTRIAN
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ECONOMY ANNOUNCED BY AUSTRIAN ECONOMIC RESEARCH INSTITUTES YESTERDAY (REPORTED SEPARATELY). END SUMMARY.

2. ON JUNE 28, AUSTRIAN NATIONAL BANK (ANB) DECIDED EFFECTIVE JUNE 29 TO LOWER THE CENTRAL BANK RATE FROM 5.5 PERCENT IN EFFECT SINCE JUNE 10, 1977 TO 4.5 PERCENT AND THE LOMBARD RATE FROM 6.0 PERCENT TO 5.0 PERCENT.

3. THE SO-CALLED DEPOSIT RATE AGREEMENT, WHICH HAS STATUTORY CHARACTER AND OBLIGES THE BANKS TO APPLY UNIFORM INTEREST RATES ON CERTAIN CATEGORIES OF DEPOSITS, WAS AMENDED AS FOLLOWS: EFFECTIVE JULY 1, 1978, THE SO-CALLED BASIC DEPOSIT RATE, I.E. THE INTEREST RATE PAYABLE BY BANKS ON SAVINGS DEPOSITS WHICH ARE WITHDRAWABLE AT SIGHT, WILL BE REDUCED FROM 4.5 PERCENT IN EFFECT SINCE JANUARY 1, 1977, TO 4.0 PERCENT PER ANNUM. FOR SAVINGS DEPOSITS BLOCKED FOR AT LEAST 12 MONTHS, THE INTEREST RATE WILL AMOUNT TO 5.0 PERCENT. THIS CATEGORY REPLACES THE 5.5 PERCENT INTEREST PAYABLE ON SAVINGS DEPOSITED FOR AT LEAST 24 MONTHS, WHICH WAS ELIMINATED FROM THE AGREEMENT. THE INTEREST RATE ON CERTIFICATES OF DEPOSITS SO-CALLED QUOTE SPARBRIEFE UNQUOTE WITH 5-YEAR MATURITY REMAINS UNCHANGED. ALSO THE SO-CALLED BONUS SAVINGS SYSTEM PROVIDING FOR 6 PERCENT INTEREST PLUS A 2 PERCENT GOA BONUS PAYABLE ANNUALLY ON SAVINGS DEPOSITED IN QUARTERLY INSTALLMENTS DURING FIVE YEARS WILL NOT BE CHANGED. MOREOVER, THE BANKS PROMISED A REDUCTION BY ABOUT ONE PERCENTAGE POINT OF THE SO-CALLED GRAY INTEREST RATES, WHICH BANKS USE TO PAY IN EXCESS OF STATUTORY RATES ON LARGER-SIZE DEPOSITS IN THEIR EFFORT TO ATTRACT CUSTOMERS. UNTIL LATELY, SUCH RATES HAVE BEEN AMOUNTING TO BETWEEN 6.5 PERCENT AND 8.0 PERCENT DEPENDING ON SIZE AND MATURITY OF DEPOSIT.

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4. ALSO EFFECTIVE JULY 1, BANKS AGREED TO REDUCE THEIR CHARGES ON OVERDRAFTS AND INVESTMENT LOANS BY BETWEEN 0.75 PERCENT AND 1.0 PERCENT. AS A RESULT, THE PRIME RATE IS LIKELY TO BE LOWERED TO ABOUT 8.75 PERCENT FROM THE PRESENT LEVEL OF BETWEEN 9.5 PERCENT AND 9.75 PERCENT. COSTS FOR PRIVATE PERSONAL LOANS WILL REMAIN UNCHANGED AT THE PRESENT LEVELS OF BETWEEN 10.5 PERCENT AND 12.0 PERCENT DEPENDING ON MATURITY.

5. AT THE SAME TIME, COUPON RATES ON NEWLY ISSUED BONDS WERE REDUCED TO A UNIFORM 7.75 PERCENT, COMPARED WITH 8.0 PERCENT THUS FAR PAID ON MOST NEW ISSUES. A FURTHER REDUCTION OF ISSUING RATES IS EXPECTED FOR THIS FALL. MORTGAGE BONDS WILL CONTINUE TO CARRY 8.0 PERCENT NOMINAL INTEREST FOR THE TIME BEING, BUT ACTUAL YIELDS WILL BE LOWER DUE TO THE RISE IN SELLING PRICES BY ONE TO TWO PERCENT ABOVE PAR.

6. IN COMMENTS TO THE PRESS, FINANCE MINISTER ANDROSCH AND ANB PRESIDENT KOREN STRESSED THE SIGNAL EFFECT OF THE LOWERING OF CREDIT RATES AND POINTED OUT THAT THE ALLEGED REASON FOR BUSINESS TO DELAY PLANNED INVESTMENT PROJECTS

PENDING A REDUCTION OF CREDIT COSTS HAS NOW BEEN ELIMINATED. CHAMBER OF COMMERCE AND LEAGUE OF AUSTRIAN INDUSTRIALISTS SPOKESMEN WELCOMED THE MEASURE, AND ALSO TRADE UNION FEDERATION PRESIDENT BENYA, WHO UNTIL THE LAST MINUTE HAD OPPOSED A REDUCTION OF DEPOSIT RATES AT THIS TIME, VOICED HIS APPROVAL, AFTER THE BANKS HAD COMPLIED WITH HIS FIRM DEMAND FOR A REDUCTION OF GRAY INTEREST RATES BY ONE PERCENT AND DROPPED THEIR DEMAND FOR A CUT OF THE BASIC DEPOSIT RATE BY ONE FULL PERCENTAGE POINT.

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7. COMMENT: PRESENT ANB ACTION PRIMARILY REFLECTS A DEVELOPMENT ALREADY ANTICIPATED BY THE MARKET. SINCE ANB ACTION TAKEN LAST APRIL IN SUPPORT OF THE GOA PROGRAM TO STIMULATE INVESTMENTS (REFTEL), SHORT TERM MONEY MARKET RATES REPORTEDLY DECLINED BY THREE PERCENTAGE POINTS TO ABOUT 6 PERCENT. SIMULTANEOUSLY, IN SOME CASES, CREDIT COSTS HAVE ALSO BEEN REDUCED SLIGHTLY, AND THE NEW GOA SYSTEM OF PROVIDING 3 PERCENT INTEREST SUPPORT ON CERTAIN INVESTMENT CREDITS HAS BECOME OPERATIVE. HOWEVER, CREDIT DEMAND IN GENERAL CONTINUES TO BE SLUGGISH AND REMAINS WAY BELOW PERMISSIBLE LIMITS, AND RESPONSE TO THE NEW GOA INVESTMENT INCENTIVES HAS REPORTEDLY BEEN DISAPPOINTING. AGAINST THE BACKGROUND OF PERSISTENT GLOOMY WORLD ECONOMIC PROSPECTS, RECESSION-MINDEDNESS APPARENTLY HAS BEEN SPREADING MORE RAPIDLY IN AUSTRIA THAN EXPECTED, WHICH IS ALSO REFLECTED IN THE DRASTIC REVISION BY THE TWO AUSTRIAN ECONOMIC RESEARCH INSTITUTES OF THEIR GROWTH

FORECASTS FOR INVESTMENTS AND CONSUMPTION THIS YEAR TO
NEARLY, OR LESS THAN, ZERO FROM THE ALREADY MODEST ONE TO
THREE PERCENT GROWTH RATES PREDICTED FOR THESE SECTORS
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THREE MONTHS AGO (REPORTED SEPARATELY). HENCE, THERE
APPEARS TO BE LITTLE LIKELIHOOD FOR A SUBSTANTIAL REVIVAL
SHORTLY OF INVESTMENT ACTIVITY IN RESPONSE TO THE PRESENT
REDUCTION OF INTEREST RATES. WOLF

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